3.1

Fundamentals of Demand

As a Young Historian, I will be able to…

What is Demand?

Demand- The desire to own something and the ability to pay for it.

Law of Demand- When prices are lower, consumers will buy more of it. When it's higher, they buy less

What is the most you would spend on an icecream cone?

There are two separate patterns of behavior that will change a consumers spending habits

Substitution Effect

When the price of something goes up, consumers will buy alternatives of items

Substitution Effect- Consumers react to a rise in prices by consuming less of that good & buying an alternative

Consumers will also substitute purchases with a cheaper good, causing the demand to rise

Income Effect

When prices of items rise, people may feel like they have become poorer

Income Effect- The change in consumption that results when a price increases causes income to decline

Consumption is measured in amount of goods sold, not the prices of it.

If prices drop, the opposite happens and you feel as if you have become wealthier!

Demand Schedule

To have demand, you must be willing & able to buy it at a specific price.

Demand Schedule- Table that lists the quantity of a good that a person will purchase at various prices in a market

Market Demand Schedule- Shows quantities demand at various prices by all consumers in the market.

Businesses will create a market demand schedules to help purchase orders

Demand Graph

Demand Curve- Graphic representation of a demand schedule

The vertical axis will lowest possible prices at bottom, highest at the top

Quantities will be labeled the same, then points are connected!

Market demand curves are only accurate for one specific set of conditions, it cannot predict changes in the market